

Message Text

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20

ACTION EA-14

INFO OCT-01 ISO-00 SPC-03 SAM-01 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 L-03 H-03 DODE-00 PA-04 USIA-15 PRS-01

AGR-20 DRC-01 /179 W

----- 062190

R 150530Z FEB 74

FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 7636

INFO AMEMBASSY CANBERRA

CINCPAC FOR POLAD

AMEMBASSY JAKARTA

C O N F I D E N T I A L WELLINGTON 0457

FOR DEPUTY SECRETARY FROM CHARGE

JAKARTA FOR ASST SECY INGERSOLL FROM CHARGE

E.O. 11652: GDS

TAGS: OVIP (RUSH)

SUBJ: NZ AS IT AFFECTS U.S.

CEF: WELLINGTON 3317, DEC 21, 1973(SENT INFO JAKARTA)

THE FOL IS SUBMITTED AS REQUESTED BY ASST
SECY INGERSOLL IN HIS LETTER TO ME OF DECEMBER 20. IT
IS NOT DUE UNTIL FEB 28, BUT IN VIEW PRIOR ARRIVAL HERE
OF ASST SECY INGERSOLL AND DEPUTY SECY FOR ANZUS MEETING,
IT IS SUBMITTED AHEAD OF SCHEDULE.

THE FOL IS AN UP-DATE OF THE MAIN
ELEMENTS IN US-NZ RELATIONS AS SET FORTH IN REFTEL.

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THE OBSERVATIONS IN REFTEL STILL APPLY TO KIRK

AND HIS GOVERNMENT.

HOWEVER, IN ADDITION TO INFLATION AND THE ENERGY CRISIS NZ NOW FACES, AS THE RESULT OF A THREE-YEAR DROUGHT, BOTH A REDUCTION IN AGRICULTURAL PRODUCTION, ITS MOST IMPORTANT EXPORT EARNER, AND A REDUCTION IN HYDRO POWER, THE PRIMARY ALTERNATIVE TO OIL AS AN ENERGY SOURCE.

IT IS EXPECTED THAT DURING 1974 INCREASED PRICES OF IMPORTED FUEL WILL REDUCE DRASTICALLY, IF NOT WIPE OUT, NZ'S RELATIVELY LARGE FOREIGN RESERVES WHICH IN MID-1973 STOOD AT THE EQUIVALENT OF NEARLY US DOLS 1.2 BILLION.

IT WILL BE DIFFICULT FOR NZ TO OFFSET THIS LOSS BY AN INCREASE IN EXPORT EARNINGS, SINCE: (A) PRICES OF ITS PRODUCTS ARE ALREADY VERY HIGH AND ARE UNLIKELY TO INCREASE, (B) THE AMOUNT NZ CAN SELL WILL BE REDUCED BY SLOWER VOYAGES AND FEWER CALLS BY CARGO SHIPS TO ITS DISTANT MARKETS, (C) PRESENT DROUGHT WILL LIKELY REDUCE PRODUCTION OF SOME OF ITS PRINCIPAL EXPORTS, (D) INCREASED DOMESTIC ENERGY PRICES ARE LIKELY TO LEAD TO A NEW PRICE/WAGE SPIRAL IN AN ECONOMY WHERE THERE IS NO SURPLUS LABOR AND SHORTAGES OF OTHER RESOURCES.

FOR KIRK, THESE FACTORS, OVER WHICH HE HAS NO CONTROL, WILL WEAKEN HIS GOVT, WHICH IS ALREADY DISPLAYING A CONSIDERABLE LACK OF VITALITY. KIRK HAS NOT TAKEN THE STEPTS NECESSARY TO IMPROVE HIS CABINET AND IS, IN EFFECT, CARRYING SEVERAL MINISTERS WHO SHOULD BE DROPPED. FIRST AMONG THESE IS HUGH WATT, DEP. PRIME MINISTER AND MIN. LABOR. WATT'S LACK OF UNDERSTANDING OF HIS PORTFOLIO HAS RESULTED IN HIS FURTHER ALIENATING BOTH LABOR AND MANAGEMENT IN THE PAST TWO WEEKS BY ANNOUNCING A NOW-YOU-SEE-IT-NOW-YOU-DON'T GENERAL WAGE ORDER. HE HAS ALSO PROVED HIMSELF TOTALLY INCAPABLE OF DEALING WITH A RISING LEVEL OF INDUSTRIAL UNREST.

FOR THE US, THIS MEANS: (A) POLITICALLY AND MILITARILY NZ WILL BE A SOMEWHAT WEAKER ALLY; (B)
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ECONOMICALLY, NZ WILL NOT BE AS GOOD APOTENTIAL MARKET FOR US GOODS.

U.S. ROLE: THERE IS LITTLE THE US CAN DO OTHER THAN KEEP NZ FULLY INFORMED ON OUR PLANS FOR HANDLING THE ENERGY CRISIS. IN THIS CONNECTION, EMBASSY IS KEEPING GNZ APPRISED OF FEB 11 ENERGY MEETING AS REPORTED HERE IN WIRELESS FILE.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 15 FEB 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974WELLIN00457
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: WELLINGTON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740227/aaaaazjl.tel
Line Count: 116
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 08 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 JUL 2002 by boyleja>; APPROVED <15 JAN 2003 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NZ AS IT AFFECTS U.S. CEF: WELLINGTON 3317, DEC 21, 1973(SENT INFO JAKARTA)
TAGS: OVIP, (RUSH)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005